



Final Minutes
Endowment Fund Investment Regular Board Meeting
February 15, 2017

A regular meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise, Idaho on February 15, 2017. Chairman M. Dean Buffington called the meeting to order at 9:02 a.m. Chairman Buffington noted there was not a quorum present and stated that no official action would be taken by the Board until such time that a quorum was achieved.

Member's Present:

Dean Buffington
Representative Anderson (*arrived 11:15am*)
Warren Bakes
Gary Mahn
Richelle Sugiyama

Member's Absent:

Senator Winder
Gavin Gee

Staff Present:

Larry Johnson
Chris Halvorson
Michelle Watts
Liz Wieneke

Legal Counsel:

Julie Weaver

Guests:

Janet Becker-Wold, Callan
Edelene Ohman, STO
Tom Schultz, IDL
Donna Caldwell, IDL
Kari Kostra, IDL
Rhet Hulbert, Clearwater Advisors
Don Streett, Clearwater Advisors
Robert (Bob) Enrst, Northern Trust
Ariceli Estrada, Northern Trust

Hard copies of board materials were mailed and delivered six days prior to the scheduled board meeting and a meeting notice and agenda was posted on the door of the EFIB office beginning February 8, 2017.

Mr. Buffington recognized Ms. Wieneke as the new office manager. She gave a brief background of her experience.

Recent Endowment Fund Results

Mr. Halvorson reported the month-to-date performance of the plans managed by the EFIB.

Capital Market Assumptions

Mr. Johnson presented information on Capital Market assumptions from various sources. Most forecasters indicate that equities will outperform bonds. Based on Callan's projections for return and correlation, the land grant endowment fund will have a compound annual return of 6.3% over the next ten years (before fees and active manager impact). This is the expected return that staff will communicate to stakeholders.

Fund Performance – 4th quarter 2016 (Janet Becker-Wold)

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Endowment Fund: The endowment portfolio posted a 0.6% return for the quarter ended December 31, 2016, 30 basis points below benchmark. Relative to public fund peers, the fund ranked 63rd percentile for the quarter and 63rd for the year ended December 31, 2016. Relative to endowment and foundation peers, the fund ranked 61st percentile for the quarter and 49th for the year ended December 31, 2016.

State Insurance Fund: The SIF portfolio posted a -1.5% return for the quarter ended December 31, 2016, and 3.4% for the year ended December 31, 2016.

Ms. Becker-Wold discussed International Value Manager Allianz-NFJ, who has underperformed their benchmark for the last five years and has had recent changes to their organization structure.

Ms. Becker-Wold also reviewed the compliance report.

Endowment Fund Performance – Last 5 Years

Mr. Halvorson presented an overview of the portfolio and 5-year performance evaluation with charts showing portfolio characteristics vs. peers and risk-adjusted performance.

Rebalancing Overlay Update – (Rhet Hulbert)

Mr. Hulbert presented an overview of the daily equitization and rebalancing process that Clearwater Advisors manage for the endowment fund. Using futures contracts, the process turns excess cash on a daily basis, into the economic equivalent of stocks and bonds through the use of futures. It continues to contribute a modest return while reducing overall portfolio risks as the process keeps the fund close to its target allocation. Mr. Hulbert noted the process was adjusted to accommodate the new real estate asset class.

Break – 10:37 a.m. – 10:49 a.m.

Overview of Northern Trust Custody Relationship – (Bob Ernst)

Mr. Ernst discussed the custody relationship with the EFIB including services provided.

Representative Anderson arrived at 11:15 a.m. Chairman Buffington recognized the presence of a quorum.

Legislative Update

Mr. Johnson updated the Board on S1035 – amends existing law to revise daily compensation provided to members of the EFIB from salary to honorarium. S1035 passed the Senate unanimously and is going to the House.

Board Meeting Minutes:

Ms. Sugiyama made a motion to amend the minutes of the August 11, 2016 regular meeting to reflect Ms. Sugiyama's dissenting vote on the motion to adopt a policy to issue an RFP for a general investment consultant, no less than every 10 years, but that the next RFP would not be issued before November 2018. The motion was seconded by Mr. Mahn and approved unanimously.

Ms. Sugiyama made a motion to approve, with corrections, the minutes of the November 15, 2016 regular meeting. The motion was seconded by Mr. Mahn and approved unanimously.

Mr. Bakes made a motion to approve, with corrections, the minutes of the December 1, 2016 special meeting. The motion was seconded by Mr. Mahn and approved unanimously.

Consider Earlier Implementation of Investment Consultant Search

Mr. Johnson introduced an option to accelerate the RFP for an investment consultant to Fall 2017 vs. the current policy of Fall 2018. The Board discussed the 2 options in light of Mr. Johnson's planned retirement.

Ms. Sugiyama made a motion to adopt the accelerated schedule to complete the RFP process before the retirement of the Manager of Investments. The motion was seconded by Mr. Bakes and a discussion followed. The motion failed with one aye and three nays. The chairman abstained from the vote.

The Chairman called a fifteen minute break for lunch.

Annual Review of Policies

Mr. Johnson presented staff's suggested changes to the existing policies.

Ms. Sugiyama made a motion to add "unless from a known and reputable source," to the Internet Use and Electronic Mail Policy (*Page 4*). The motion was seconded by Mr. Bakes and approved unanimously.

Ms. Sugiyama made a motion to add language which clarifies that the investment consultant reports to the EFIB in the Investment Consultant Services Review Policy (*Page 47*). The motion was seconded by Representative Anderson and approved unanimously.

Ms. Sugiyama made a motion to change "see Attachment A" to "see Appendix A" in the Annual Administrative Duties Procedure under Disclosure/Conflict of Interest Statements and Policy Acknowledgements (*Page 51*), and under April, to add "(see Attachment C)". The motion was seconded by Mr. Mahn and approved unanimously.

Ms. Sugiyama made a motion to approve all changes proposed by EFIB staff. The motion was seconded by Mr. Bakes and approved unanimously.

Investment Policy – Revisions

Mr. Halvorson did not propose any changes to the Investment Policies. The Board suggested some minor changes to the EFIB Investment Policy and asked that it clarify that the Investment Consultant reports to the board.

Ms. Sugiyama made a motion to approve the policies as submitted with the changes suggested. The motion was seconded by Representative Anderson and approved unanimously.

Board Compensation Analysis

Mr. Johnson presented comparative information on compensation for other State boards. After a discussion, the Board decided there was no urgency to make a decision and asked that the item be placed on the May agenda.

Manager of Investments transition update

Mr. Johnson presented a proposed transition plan for his retirement which contemplates advertising the position in mid-June so that a replacement could come on board by the end of October.

Workplace Violence Training

Mr. Johnson stated that statute requires state boards and commissions to undergo annual training on either workplace harassment or workplace violence. He reviewed the EFIB's Workplace Violence Policy in detail. Chairman Buffington indicated that any employee is welcome to contact either him or the Attorney General's office if they are uncomfortable reporting a problem to the Manager of Investments or a board member.

Ms. Sugiyama made a motion that the board enter Executive Session pursuant to *Idaho Code §67-2345 (1)*, for the purpose of discussing issues concerning personnel or agents *(b)*. Mr. Mahn seconded the motion. This motion passed by roll call vote, with all members present voting "aye".

EFIB staff, Ms. Weaver and Ms. Becker-Wold were invited to remain for the Executive Session.

Mr. Mahn made a motion to leave Executive Session. The motion was seconded by Representative Anderson and approved unanimously.

The Board returned to regular session 12:55 p.m.

Representative Anderson left the meeting at 12:55 p.m. Chairman Buffington recognized there was no longer a quorum present.

EFIB Staff Reports

Mr. Halvorson reviewed the performance reports of the Parks and Recreation endowments, Bunker Hill Water Treatment, Fish & Game Trust and Stewardship endowments.

Ms. Watts reported on the Expenses vs. Budget, Quarterly Financial Statements, and Coverage Ratio.

Mr. Johnson reported on YTD Land Revenues, Housing Starts, Inland Lumber Price and Stumpage Price. He noted the Gift Log had been reviewed by Ms. Weaver. Mr. Johnson reviewed the quarterly report on the School Bond Guaranty program. Mr. Johnson discussed Upcoming Issues for the May 16, 2017 joint Land Board meeting. He noted that staff is continuing its review of a portfolio risk monitoring system developed by Clearwater Analytics.

Adjournment

There being no further business to come before the Board, Mr. Buffington recognized the loss of quorum and declared the meeting adjourned.

The meeting adjourned at 1:15 p.m.